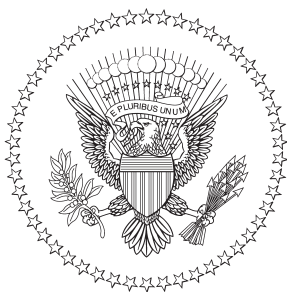


ECONOMIC
REPORT
OF THE
PRESIDENT



TRANSMITTED TO THE CONGRESS
FEBRUARY 2016

TOGETHER WITH
THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS



C O N T E N T S

ECONOMIC REPORT OF THE PRESIDENT.	1
ANNUAL REPORT OF THE COUNCIL OF ECONOMIC ADVISERS* ...	7
CHAPTER 1 INCLUSIVE GROWTH IN THE UNITED STATES	21
CHAPTER 2 THE YEAR IN REVIEW AND THE YEARS AHEAD ..	51
CHAPTER 3 THE GLOBAL MACROECONOMIC SITUATION. ...	119
CHAPTER 4 INEQUALITY IN EARLY CHILDHOOD AND EFFECTIVE PUBLIC POLICY INTERVENTIONS ...	153
CHAPTER 5 TECHNOLOGY AND INNOVATION	207
CHAPTER 6 THE ECONOMIC BENEFITS OF INVESTING IN U.S. INFRASTRUCTURE	251
CHAPTER 7 THE 70 TH ANNIVERSARY OF THE COUNCIL OF ECONOMIC ADVISERS.	291
REFERENCES	331
APPENDIX A REPORT TO THE PRESIDENT ON THE ACTIVITIES OF THE COUNCIL OF ECONOMIC ADVISERS DURING 2015	381
APPENDIX B STATISTICAL TABLES RELATING TO INCOME, EMPLOYMENT, AND PRODUCTION	395

*For a detailed table of contents of the Council's Report, see page 11.

ECONOMIC REPORT
OF THE
PRESIDENT

ECONOMIC REPORT OF THE PRESIDENT

TO THE CONGRESS OF THE UNITED STATES:

When I took office, our Nation was in the midst of the worst recession since the Great Depression. The economy was shedding 800,000 jobs a month. The auto industry was on the brink of collapse, and our manufacturing sector was in decline. Many families were struggling to pay their bills and make ends meet. Millions more saw their savings evaporate, even as retirement neared.

Seven years later, thanks to the grit and determination of the American people, the United States of America has rebuilt, reformed, and emerged as the strongest, most durable economy in the world.

We are in the middle of the longest streak of private-sector job creation in history: 14 million new jobs; the strongest two years of job growth since the '90s; an unemployment rate cut in half. Manufacturing has added 900,000 jobs in the past six years, and our auto industry just had its best year of sales ever. We are less reliant on foreign oil than at any point in the previous four decades. Nearly 18 million people have gained health coverage under the Affordable Care Act, cutting the uninsured rate to a record low. And we've done all this while dramatically cutting our budget deficit.

In 2015, we continued to take steps forward, with strong job growth and wages rising at their fastest rate in the recovery. Here in Washington, Congress came together to pass a budget, secure long-term transportation funding, reform education laws, and make tax cuts for working families permanent.

So claims that America's economy is in decline or that we haven't made progress are simply not true. What is true—and the reason that a

lot of Americans feel anxious—is that the economy has been changing in profound ways, starting long before the Great Recession. Today, technology doesn't just replace jobs on the assembly line, but rather affects any job where work can be automated. Companies in a global economy face tougher competition from abroad, and they can locate anywhere. As a result, workers have less leverage for a raise. And more and more wealth and income is concentrated at the very top.

All these trends have squeezed workers, making it difficult for middle-class families to feel secure, even when they have jobs and the economy is growing. For the past seven years, our goal has been not just strengthening economic growth but also creating an economy where everyone who works hard gets a fair shot. We've made progress. But we need to make more. And we must choose policies that not only make us stronger today, but also reflect the kind of country we aspire to be in the coming decades.

Real opportunity requires every American to get the education and training they need to land a good-paying job. Together, we've increased access to early childhood education, lifted high school graduation rates to new highs, and boosted graduates in fields like engineering. In the coming years, we should build on that progress, by providing pre-school for all, offering every student the hands-on computer science and math classes that make them job-ready on day one, and recruiting and supporting more great teachers for our kids. And we have to make college affordable for every American. Because no hardworking student should be saddled with unmanageable debt. We've already doubled investments in college scholarships and tax credits and capped student loan payments to 10 percent of a borrower's income. Now, we need colleges to find innovative ways to cut costs and help more students finish their degrees.

Of course, a great education isn't all we need in this new economy. We also need benefits and protections that provide a basic measure of security. Social Security and Medicare are more important than ever, and we shouldn't weaken them; we should strengthen them. For Americans short of retirement, basic benefits should be just as mobile as everything else is today. That's part of what the Affordable Care Act is all about. It helps fill the gaps in employer-based care so that when we lose a job, or go back to school, or start that new business, we'll still have coverage.

We can build on this progress by further strengthening our social safety net and modernizing it for the changing economy. For example,

when a hardworking American loses his job—we shouldn't just make sure he can get unemployment insurance; we should make sure that program encourages him to retrain for a business that's ready to hire him. If that new job doesn't pay as much, there should be a system of wage insurance in place so that he can still pay his bills. And even if he's going from job to job, it shouldn't be difficult for him to save for retirement and take his savings with him. That's the way we make the economy work better for everyone.

But there are broader choices to make about what role the government should play in making sure the system's not rigged in favor of the wealthiest and biggest corporations. A thriving private sector is the lifeblood of our economy, and we can all agree that there are outdated regulations that need to be changed, and red tape that needs to be cut. But after years of record corporate profits, working families won't have more opportunities or see faster wage growth by letting the biggest companies make their own rules at the expense of everyone else; or by allowing attacks on collective bargaining to go unanswered.

In this new economy, workers and start-ups and small businesses need more of a voice, not less. The rules should work for them. And this year I plan to lift up the many businesses that have figured out that doing right by their workers ends up being good for their shareholders, their customers, and their communities, so that we can spread those best practices across America.

In fact, many of our best corporate citizens are also our most creative, and that spirit of innovation is essential to helping us meet our biggest challenges. Over the past seven years, we have nurtured that spirit by protecting an open Internet, creating online tools to help entrepreneurs start their businesses in a single day, and taking bold new steps to get more students and low-income Americans online. But we can do so much more, especially for medical research and clean energy sources. With 2015 marking the warmest year on record, we need to build on our existing investments in clean energy and accelerate the transition away from fossil fuels.

At the same time, I'll keep pushing forward on work that still needs to be done, like fixing our broken immigration system, raising the minimum wage, providing two years of free community college to responsible students, ensuring equal pay for equal work, opening U.S. exports to new markets, and expanding tax cuts for low-income workers

without kids. All these things still matter to hardworking families; they are still the right thing to do, and I will not let up until they get done.

I have never been more optimistic about America's future than I am today. Over the past seven years, I have seen the strength, resilience, and commitment of the American people. I know that when we are united in the face of challenges, our Nation emerges stronger and better than before. And when we work together, there are no limits to what we can achieve.

A handwritten signature in black ink, appearing to read "Barack Obama", with a large, stylized initial "B" and a circular flourish.

THE WHITE HOUSE
FEBRUARY 2016



THE ANNUAL REPORT
OF THE
COUNCIL OF ECONOMIC ADVISERS

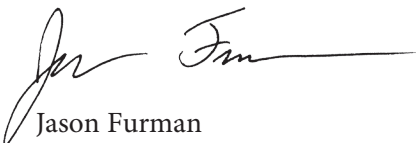
LETTER OF TRANSMITTAL

COUNCIL OF ECONOMIC ADVISERS
Washington, D.C., February 22, 2016

MR. PRESIDENT:

The Council of Economic Advisers herewith submits its 2016 Annual Report in accordance of the Employment Act of 1946 as amended by the Full Employment and Balanced Growth Act of 1978.

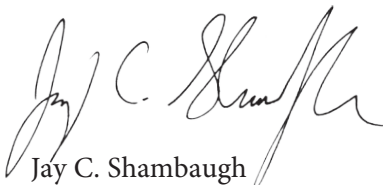
Sincerely yours,

A handwritten signature in black ink, appearing to read "Jason Furman", with a long horizontal flourish extending to the right.

Jason Furman
Chairman

A handwritten signature in black ink, appearing to read "Sandra E. Black", written in a cursive style.

Sandra E. Black
Member

A handwritten signature in black ink, appearing to read "Jay C. Shambaugh", written in a cursive style.

Jay C. Shambaugh
Member